

Utilities Privatization Update at U.S.Navy and Marine Corps Facilities in Southern California

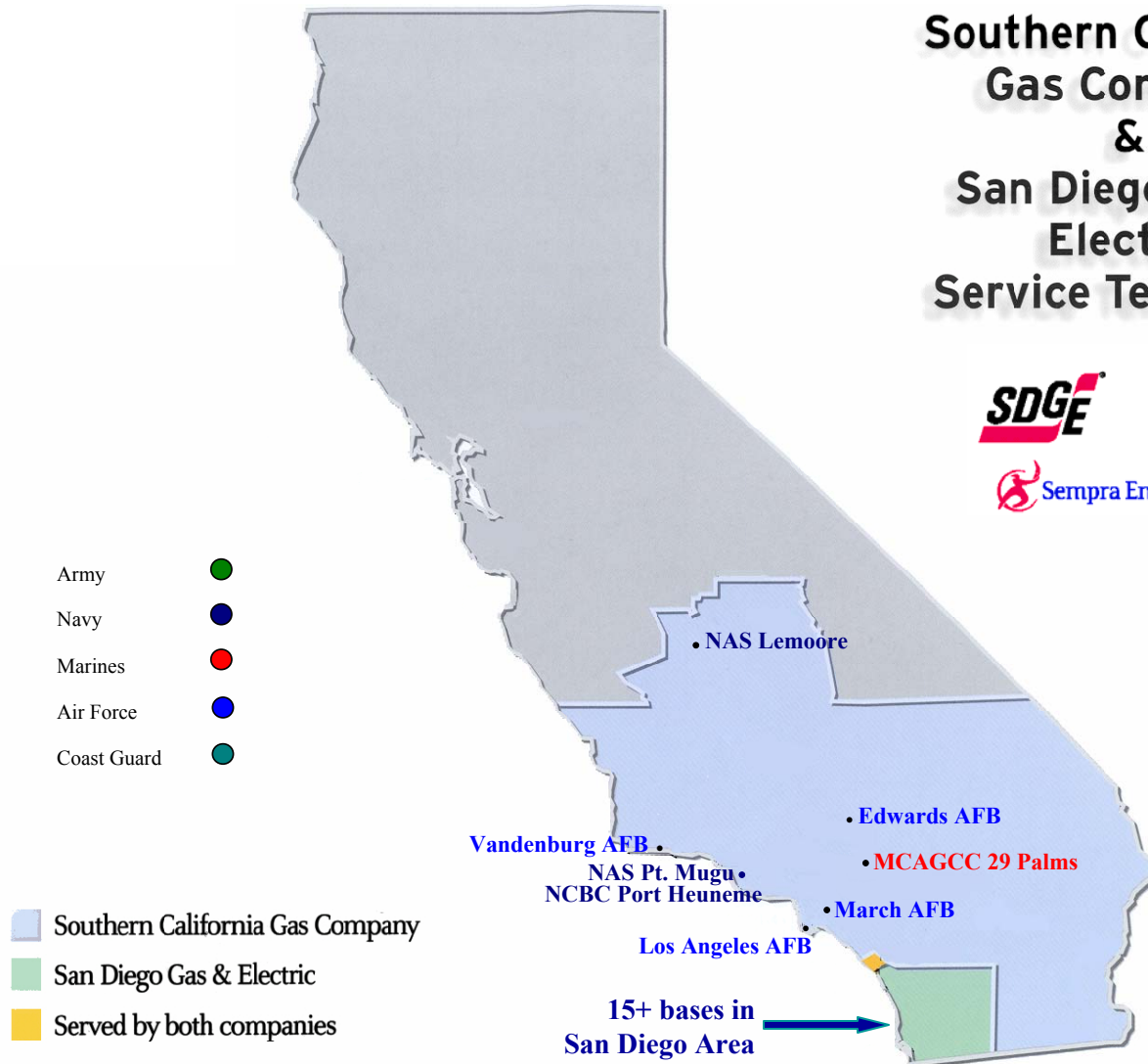
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- Federal Utility Partnership Working Group Meeting
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Sempra Energy Utilities

Southern California Gas Company & San Diego Gas & Electric Service Territories



The Market is Saturated

Of all regulated service territories, Sempra Energy Utilities contains the highest concentration of military bases.

SDG&E Region	Systems		
	Electric	Gas	Total
- MCRD San Diego	1	1	2
- NWS Fallbrook	1	1	2
- San Diego Metro Bases	14	16	30
- MCB Camp Pendleton	1	1	2
Total	17	19	36

SoCalGas Regions

- MCAGCC 29Palms (revised bid)	1
- ANG Channel Islands	1
- NAS Lemoore	1
- NWS Seal Beach	1
- Seal Beach Housing	1
- NAF El Centro	1
- NSWC Corona	1
Total	7

Privatization Experience

- SDG&E successfully privatized NTC San Diego
- Sempra Utilities have expressed interest in all RFI's issued within our service territories
- SoCalGas is the current Best Value Offeror for gas system at MAGTFTC Twentynine Palms
 - Currently negotiating with Government
- SDG&E successfully privatized gas and electric systems within Housing PPV program for both on-base and off-base housing.

Issues

- System data packages
 - inaccurate
 - not issued in timely manner
 - security process cumbersome
- Requirements
 - inconsistent from base to base
 - strict, prohibitive interpretation
- Improper calculation of Government should cost
 - code-required tasks often not allowed
- Large “all or none” bundles
 - limits the availability of responsible bidders
 - requires bidder to submit LCC per system
 - if one system fails economic test, bidder loses entire bundle
 - difficult to compete with Government economies of scale
- Ambitious schedule along with market saturation creates challenges for quality/accurate bid
- Risk
 - Costly Due Diligence not recoverable
 - Safety/Environmental Risk one-sided

Lessons Learned

- Recommend more current and accurate system info
- Recommend consistency:
 - RFP's should have consistent format and bidding requirements
 - Information/data released for one base should also be made available on another base
- RFP releases difficult to follow and too numerous to facilitate responsible offers
- Need clear statement from DOD of its intentions to move forward and commitment to privatization
- Need clear, workable procurement processes and schedules
- Need clear, consistent economic evaluation standards

Lessons Learned

- Housing PPV
 - Deconflict PPV goals with UP goals
 - PPV is microcosm of UP
 - Realize that all issues impacting UP also impact PPV
- Carefully consider the role of incumbent, regulated utilities
 - Post privatization, incumbent, regulated utilities must continue to deliver commodity to the base
- Assess impact of third-party ownership
 - Existing relationships will change
 - Existing special deals at risk
 - Reliability may be impacted especially where incumbent regulated utilities co-own base systems.

New DoD Guidance

- Provides relief on some issues such as:
 - Bidders allowed 120 days to make offers
 - For RFP's with multiple systems, allow interested parties to bid on selected individual systems, multiple systems or the entire package
- Proper application of Guidance may still be an issue.
- Will current solicitations be amended to reflect new Guidance?